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FIH[®] 富智康[™]
FIH Mobile Limited
富智康集團有限公司

(incorporated in the Cayman Islands with limited liability)
(Stock Code: 2038)

**DISCLOSEABLE TRANSACTION RELATING TO
SUBSCRIPTION OF CONVERTIBLE PREFERRED SHARES IN
HMD GLOBAL OY**

Financial Adviser



YU MING INVESTMENT MANAGEMENT LIMITED
禹銘投資管理有限公司

SUBSCRIPTION OF CONVERTIBLE PREFERRED SHARES

On 21 May 2018 (after trading hours), the Investors (including Wonderful Stars, an indirect wholly-owned subsidiary of the Company), the Existing HMD Shareholders and HMD entered into the Investment Agreement, pursuant to which the Investors agreed to subscribe for and HMD agreed to allot and issue 396,974 Convertible Preferred Shares at the Subscription Price of US\$253.35 (equivalent to approximately HK\$1,976.13) per Convertible Preferred Share for a total consideration of US\$100,573,363 (equivalent to approximately HK\$784,472,231), out of which 244,720 Convertible Preferred Shares at the Subscription Price of US\$253.35 (equivalent to approximately HK\$1,976.13) per Convertible Preferred Share will be subscribed for by Wonderful Stars at a total consideration of US\$61,999,812 (equivalent to approximately HK\$483,598,534), in each case upon and subject to the terms and conditions set out therein.

IMPLICATIONS UNDER THE LISTING RULES

As one or more of the applicable percentage ratios (as defined in Rule 14.07 of the Listing Rules) in respect of the Transaction are more than 5% but less than 25%, the Transaction constitutes a discloseable transaction for the Company under Chapter 14 of the Listing Rules and is therefore subject to the reporting and announcement requirements under the Listing Rules.

IMPORTANT

As the Transaction may or may not eventuate, there is no assurance that the Transaction will eventuate as contemplated. Accordingly, shareholders of the Company and potential investors are advised to exercise caution when dealing in the shares in the Company.

A. INTRODUCTION

This announcement is made by the Company pursuant to Rule 13.09(2)(a) of the Listing Rules and the Inside Information Provisions (as defined under the Listing Rules) under Part XIVA of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong).

On 21 May 2018 (after trading hours), the Investors (including Wonderful Stars, an indirect wholly-owned subsidiary of the Company), the Existing HMD Shareholders and HMD entered into (i) the Investment Agreement for the Subscription; and (ii) the Shareholders' Agreement to govern the rights and obligations of the shareholders of HMD and HMD share sales. The principal terms of the Investment Agreement and the Shareholders' Agreement are respectively as follows:

B. INVESTMENT AGREEMENT

Date: 21 May 2018

Parties:

1. the Investors (including Wonderful Stars, an indirect wholly-owned subsidiary of the Company)
2. the Existing HMD Shareholders
3. HMD

To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, save and except for (i) Wonderful Stars being an indirect wholly-owned subsidiary of the Company; and (ii) the Group being a limited partner holding approximately 29.76% interest in Asia-IO Special Opportunity 1 Annex, L.P. (one of the Existing HMD Shareholders with a minority interest), each of the Investors, the Existing HMD Shareholders and HMD and (if applicable) their respective ultimate beneficial owners are Independent Third Parties.

The Subscription

The Investors agreed to subscribe for and HMD agreed to allot and issue 396,974 Convertible Preferred Shares at the Subscription Price of US\$253.35 (equivalent to approximately HK\$1,976.13) per Convertible Preferred Share for a total consideration of US\$100,573,363 (equivalent to approximately HK\$784,472,231). Details of the Subscription are as follows:

Name of the Investors	Number of Convertible Preferred Shares agreed to be subscribed for	Approximate Subscription money (US\$'000)
Wonderful Stars	244,720	62,000
DMJ Asia Investment Opportunity Limited	11,841	3,000
Alpha Ginko Limited	<u>140,413</u>	<u>35,573</u>
Total	<u><u>396,974</u></u>	<u><u>100,573</u></u>

The Subscription Price of US\$253.35 (equivalent to approximately HK\$1,976.13) per Convertible Preferred Share was determined after arm's length negotiations between the Company and HMD principally with reference to the valuation of HMD conducted by an independent valuer, the prevailing commercial and business conditions of the handset market, the business prospects of HMD and the reasons and benefits for the Transaction as set out below.

The Subscription money payable by Wonderful Stars will be settled in cash with the internal financial resources of the Group.

Completion

Completion of the Subscription shall take place within 10 business days from the Effective Date.

Upon completion of the Transaction, Wonderful Stars will hold 244,720 Convertible Preferred Shares, representing (i) approximately 7.92% of the issued shares of HMD as at the date of this announcement; (ii) approximately 7.02% of the issued shares of HMD as enlarged by the issuance of the Convertible Preferred Shares; and (iii) approximately 6.20% of the issued shares of HMD as enlarged by the issuance of the Convertible Preferred Shares and the shares under the RSUP (as defined below).

C. SHAREHOLDERS' AGREEMENT

Date: 21 May 2018

Parties:

1. the Investors (including Wonderful Stars, an indirect wholly-owned subsidiary of the Company)
2. the Existing HMD Shareholders
3. HMD

The principal terms of the Shareholders' Agreement are summarised as follows:

Conversion option

The Convertible Preferred Shares may be converted into Common Shares (the "**Conversion Option**"). The Conversion Option may be exercised by HMD in connection with a Qualified IPO or by the Investors in connection with a Change of Control Event. Under the Conversion Option, the conversion rate of the Convertible Preferred Shares to Common Shares is (i) 1 for 1, if the price per share in the Change of Control Event or in the Qualified IPO generates a gross internal rate of return of at least 25% upon the Subscription Price per Convertible Preferred Share (the "**Required Conversion Return**"); or (ii) a conversion rate calculated on the basis that the Subscription Price shall be adjusted so that the Required Conversion Return is delivered to the Investors in connection with a Qualified IPO or a Change of Control Event (the "**Conversion Pricing Adjustment**").

Assuming the conversion rate of Convertible Preferred Shares to Common Shares is 1 for 1, 244,720 Common Shares will be allotted and issued to Wonderful Stars upon exercise of the Conversion Option, representing (i) approximately 7.92% of the issued Common Shares as at the date of this announcement; (ii) approximately 7.02% of the issued Common Shares on the basis of the then enlarged issued share capital of HMD immediately after exercise of the Conversion Option; and (iii) approximately 6.20% of the issued Common Shares on the basis of the then enlarged issued share capital of HMD immediately after exercise of the Conversion Option and issuance in full of the shares under the RSUP (as defined below).

Save for the preference rights attached to the Convertible Preferred Shares set out in the Shareholders' Agreement as disclosed in this announcement, the holders of the Convertible Preferred Shares are entitled to the rights of the holders of the Common Shares (including voting rights in the general meetings of HMD).

Investment rights

If the Main Shareholder(s) accept a new investment and/or shareholders' agreement in relation to additional financing from bona fide third party or parties, all the Parties may be required to sign a new investment and/or shareholders' agreement regarding HMD, as long as the Investors' rights under the Shareholders' Agreement remain unaffected unless otherwise consented by the Qualified Investors.

Anti-dilution protection

HMD may under restricted share unit plan (the “**RSUP**”) issue for subscription shares or equity securities entitling to shares to managers, employees, consultants, advisors or members of the board of directors of HMD totalling or entitling to in the aggregate maximum 15% of votes in HMD.

If HMD issues or sells any new shares or equity securities, save for those issued under the RSUP, at a valuation that is less than the Subscription Price, either:

- (i) HMD shall, simultaneously with such sale or issuance, issue such number and class of shares or equity securities to the Investors without consideration; or
- (ii) the Existing HMD Shareholders shall transfer to the Investors such number of shares or equity securities without consideration,

so that the Investors maintain the same relative equity holding (on an as converted basis) of the then enlarged issued share capital in HMD immediately after the said new issuance.

If HMD issues any new shares or equity securities, save for those issued under the RSUP, at a valuation that is greater than, or equals to, the Subscription Price, the Investors shall have the right to participate in such issuance on the same terms and up to the same percentage of the Convertible Preferred Shares held by respective Investors prior to the new issuance.

Observer rights in the board of directors of HMD

The Qualified Investors have the right to nominate one observer to the board of directors of HMD (the “**Observer**”). The Observer has the right to participate in and speak at the meeting of the board of directors of HMD, but does not have the right to vote, place any item on the agenda of a meeting or table motions.

Qualified Investors’ consent

The following decisions of HMD shall require the Qualified Investors’ consent:

- (i) material change in the core business of HMD (that is, HMD ceasing to operate the business of mobile phones);
- (ii) more than 50% changes in the composition of the board of directors of HMD, save for changes pertaining to re-election of the directors upon expiration pursuant to HMD’s articles of association or applicable laws;
- (iii) material changes in HMD’s articles of association and other corporate documents, if such change would alter or change the preference, subordination, rights, or powers of, or the restrictions provided for the benefit of the Investors; or
- (iv) related-party transactions, except for certain related-party transactions on normal commercial terms in the ordinary course of business of HMD which were disclosed and represented.

Restrictions on transfer

No shares or any interest therein may, directly or indirectly, be sold, transferred, assigned, encumbered or otherwise disposed of (a “**Transfer**”) by the shareholders of HMD other than in accordance with the Shareholders’ Agreement (including, without limitation, the transferee’s execution of an adherence agreement in the form prescribed therein). Each Investor agrees that it will not sell its shares unless any sale includes at least 1% of the shares of HMD at that point of time or, if less, it sells all of its shares.

Right of first refusal

If a shareholder intends to Transfer shares to a bona fide third party, such shares shall first be offered for purchase by the other shareholders of HMD pro rata to their holdings of shares on the same terms.

Trade sale and Qualified IPO

In case the board of directors of HMD decides to pursue a Qualified IPO or a trade sale (meaning (i) an event where a bona fide purchaser makes a written offer on normal commercial terms to purchase shares representing more than 50% of the votes in HMD in a single transaction or in a series of related transactions; or (ii) sale, transfer, exclusive licence or other disposition of all or substantially all of the assets of HMD) (each, a “**Drag-Along Event**”) and the Main Shareholder supports such Drag-Along Event, then all shareholders shall irrevocably agree to, as the case may be, (i) transfer all their shares to the purchaser on same terms and conditions, or (ii) take all actions reasonably necessary and appropriate so as to safeguard the completion of the Qualified IPO as efficiently as possible.

Tag-along rights

If the Existing HMD Shareholders negotiate on any Transfer of all or a part of their shares with any third party or otherwise intend(s) to Transfer all or a part of their shares to any third party, the Existing HMD Shareholders shall be obliged to secure that also the Investors are entitled to participate in the intended Transfer pro rata to their holdings of shares at the same price per share and otherwise on the same or equal terms and conditions as agreed between the Existing HMD Shareholders and the third party.

Put option

The holders of the Convertible Preferred Shares are entitled to sell to HMD, and HMD is obliged to purchase, the Convertible Preferred Shares at the Put Option Price before seven years and six months has lapsed from the date of the Shareholders’ Agreement, provided that either of the following events occurs:

- (i) HMD fails to achieve a Qualified IPO before the seventh anniversary of the Shareholders’ Agreement; or
- (ii) Change of Control Event without Qualified Investors’ consent.

Dividends

The Investors shall be entitled to receive dividends, if any are declared, pro rata their holdings of the Convertible Preferred Shares, and prior to any dividend distribution to the Common Shares.

Liquidation preference

When distributing HMD's assets or proceeds to the shareholders of HMD in connection with a Liquidation Preference Event, the distribution shall be handled as follows:

- (i) The Investors shall have the first priority to receive to their Convertible Preferred Shares, prior to any distribution to Common Shares, an amount equal to the total subscription price paid for such Convertible Preferred Shares plus all declared or accrued but unpaid dividends thereon (the "**Preference Amount**"); and
- (ii) After the full Preference Amount has been paid, any remaining funds and assets legally available for distribution to shareholders would be distributed *pari passu* among all shareholders of HMD pro rata their shareholdings.

D. INFORMATION ON HMD

HMD is a company incorporated in Finland with limited liability. HMD and its subsidiaries are engaged, among other things, in the development, manufacture and sale of telecommunication devices, software and related services.

Based on the financial statements of HMD prepared in accordance with GAAP, the financial information of HMD for each of the two financial years ended 31 December 2016 and 2017 was as follows:

	For the year ended/As at 31 December 2016 EUR'000 (audited)	For the year ended/As at 31 December 2017 EUR'000 (unaudited)
Revenue	14,849	1,858,552
Net loss before taxation	(9,808)	(67,626)
Net loss after taxation	(9,808)	(65,297)
Net assets/liabilities	3,959	(61,338)

E. INFORMATION ON THE EXISTING HMD SHAREHOLDERS AND THE INVESTORS

The Existing HMD Shareholders

Smart Connect Investment S.a.r.l. is principally engaged in investment holding.

Asia-IO Special Opportunity 1, L.P. is principally engaged in asset investment.

Asia-IO Special Opportunity 1 Annex, L.P. is principally engaged in asset investment.

The Investors

Wonderful Stars is principally engaged in wholesale of handphones and other telecommunications apparatus as well as investment holding.

DMJ Asia Investment Opportunity Limited is principally engaged in investment holding.

Alpha Ginko Limited is principally engaged in investment holding.

F. REASONS AND BENEFITS FOR THE TRANSACTION

The Group is a vertically integrated manufacturing service provider for the handset industry worldwide. It provides a wide range of manufacturing services, including ancillary logistics and distribution services, to its customers in connection with the production and distribution of handsets.

HMD was established to provide a focused, independent home for a full range of Nokia-branded mobile phones and tablets. HMD's core team is comprised of seasoned management, veterans from Nokia, HTC, Microsoft, etc., with many years of experience in the mobile phone and tablet industry.

Based in Finland, HMD signed strategic licensing agreements with Nokia Technologies Ltd. ("**Nokia Technologies**"), the advanced technology and licensing unit of Nokia Corporation, giving HMD sole use of the "Nokia" brand on mobile phones and tablets worldwide for the next decade since December 2016, and cellular standard essential patent licences. To complete its portfolio of Nokia branding rights, HMD acquired from Microsoft the rights to use the "Nokia" trademark on feature phones until 2024, and design rights relating to Microsoft's feature phone business. Together, these agreements and acquisition have made HMD the sole global licensee for all types of Nokia-branded mobile phones and tablets.

On 18 May 2016, the Group entered into a collaboration agreement with Nokia Technologies and HMD with a view to building a globally successful business in the field of Nokia-branded mobile phones and tablets. On the even date, the Group entered into an agreement with Microsoft Mobile Oy (as seller) and HMD (as another purchaser) to acquire certain assets of the feature phone business then operated by Microsoft Corporation, comprising a manufacturing facility in Vietnam and certain other assets that were utilised in the conduct of such feature phone business. For details, please refer to the Company's two announcements both dated 18 May 2016. In

December 2016, the Group also invested US\$2.5 million (representing approximately 29.76% of the total capital contribution) in Asia-IO Special Opportunity 1 Annex, L.P. (one of the Existing HMD Shareholders with a minority interest) as a limited partner. From 2017, the Group has started to generate sales revenue through manufacturing and selling handsets to HMD and distribution service income from such collaboration with HMD.

It is expected that HMD will continue to grow the Nokia-branded smart and feature phones business with an aim to becoming one of the leading smart phone players globally in the long run. In the past year, HMD successfully launched 11 new Nokia-branded mobile phones in a span of 12 months. Today, Nokia-branded mobile phones are available across more than 250,000 retail outlets globally and more than 600 direct partners are committed to further the next chapter of Nokia-branded mobile phones across the world. In 2017, HMD also became the global leader in feature phones industry by value, ahead of its expectations. At Mobile World Congress (MWC) in Barcelona 2018, HMD rapidly expanded its portfolio and announced 5 new Nokia-branded mobile phones. This new range of phones received overwhelmingly positive feedback from media, analysts and industry influencers, winning an unprecedented 25 awards at the show. As such, the Company is of the view that the revenue of the Group generated from HMD and the Nokia-branded mobile phone business is expected to continue to grow.

The Directors believe that the Company, as the manufacturer of HMD, can enhance its IIDM (Integration Innovation Design Manufacture) business and potential business collaboration relationship through the Transaction. The closer relationship through the Transaction will also enable the parties to collaborate even stronger to enhance future research and development and manufacturing capabilities for the Nokia-branded mobile phone business, enabling both to achieve the common objective of building a globally successful business in the field of Nokia-branded mobile phones.

Having considered the above, the Directors consider the Transaction together with the terms governing the same to be fair and reasonable, on normal commercial terms and to be in the interests of the Company and the Shareholders as a whole.

G. IMPLICATIONS UNDER THE LISTING RULES

As one or more of the applicable percentage ratios (as defined in Rule 14.07 of the Listing Rules) in respect of the Transaction are more than 5% but less than 25%, the Transaction constitutes a discloseable transaction for the Company under Chapter 14 of the Listing Rules and is therefore subject to the reporting and announcement requirements under the Listing Rules.

IMPORTANT

As the Transaction may or may not eventuate, there is no assurance that the Transaction will eventuate as contemplated. Accordingly, shareholders of the Company and potential investors are advised to exercise caution when dealing in the shares in the Company.

DEFINITIONS

In this announcement, unless the context otherwise requires, the following expressions have the same meanings set out below:

“associates”	has the meaning as ascribed to it under the Listing Rules
“Board”	the board of the Directors
“Change of Control Event”	a transaction or series of related transactions after which the Existing HMD Shareholders collectively no longer control over 50% of the voting rights in HMD
“Common Shares”	all the shares issued by HMD from time to time, other than the Convertible Preferred Shares
“Company”	FIH Mobile Limited, a company incorporated in the Cayman Islands with limited liability, the Shares of which are listed on the Stock Exchange (Stock Code: 2038)
“connected person(s)”	has the meaning as ascribed thereto under the Listing Rules
“Convertible Preferred Share(s)”	the series A convertible preferred share(s) to be allotted and issued by HMD to the Investors pursuant to the Investment Agreement
“Director(s)”	the director(s) of the Company
“Effective Date”	21 May 2018, the effective date of the Investment Agreement
“EUR”	Euro, the official currency of the “euro area” which consists of 19 of the 28 member states of the European Union
“Existing HMD Shareholders”	collectively, Smart Connect Investment S.a.r.l., Asia-IO Special Opportunity 1, L.P. and Asia-IO Special Opportunity 1 Annex, L.P., being the existing shareholders of HMD immediately before completion of the Transaction
“GAAP”	generally accepted accounting principles and practices in Finland
“Group”	the Company together with its subsidiaries
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“HMD”	HMD global Oy, a company incorporated in Finland with limited liability
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC

“Independent Third Party(ies)”	any person(s) or company(ies) and (if applicable) their respective ultimate beneficial owner(s) who, to the best of the Directors’ knowledge, information and belief having made all reasonable enquiries, are not connected persons of the Company and are third parties independent of the Company and its connected persons in accordance with the Listing Rules
“Investment Agreement”	the investment agreement dated 21 May 2018 entered into among the Investors, the Existing HMD Shareholders and HMD in respect of the Subscription
“Investors”	collectively, Wonderful Stars, DMJ Asia Investment Opportunity Limited and Alpha Ginko Limited
“Liquidation Preference Event”	(i) liquidation, dissolution or winding up of HMD; or (ii) a merger, acquisition, consolidation or other transaction or series of transactions immediately after which the shareholders of HMD will not retain a majority of the voting rights in HMD; or (iii) a sale, lease, licence or other transfer of all or substantially all of HMD’s assets (including intellectual property)
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
“Main Shareholder”	(i) Smart Connect Investment S.a.r.l.; or (ii) shareholders who together hold at least 50% of the votes in HMD if Smart Connect Investment S.a.r.l. holds less than 50% of the votes in HMD
“Party(ies)”	collectively, the Investors, the Existing HMD Shareholders and HMD, and individually, a “Party”
“PRC”	the People’s Republic of China
“Put Option Price”	the Subscription Price as adjusted by the Conversion Pricing Adjustment
“Qualified Investors”	Investors representing 70% or more of all the outstanding votes of the Convertible Preferred Shares held by Investors (excluding Convertible Preferred Shares held by HMD and any transferees of the Convertible Preferred Shares)
“Qualified IPO”	a listing of HMD on the Main Board of the Stock Exchange or any such other internationally recognisable stock exchange that is accepted by the Qualified Investors, provided that the pre-offering valuation of HMD at such listing is no less than US\$1.5 billion
“Share(s)”	the ordinary share(s) of US\$0.04 each in the share capital of the Company

“Shareholder(s)”	the holder(s) of the Share(s)
“Shareholders’ Agreement”	the shareholders’ agreement dated 21 May 2018 entered into among the Investors, the Existing HMD Shareholders and HMD to govern the rights and obligations of the shareholders of HMD and HMD share sales
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Subscription”	the subscription of 396,974 Convertible Preferred Shares by the Investors at the subscription price of US\$253.35 (equivalent to approximately HK\$1,976.13) per Convertible Preferred Share, out of which 244,720 Convertible Preferred Shares will be subscribed for by Wonderful Stars
“Subscription Price”	the subscription price of US\$253.35 (equivalent to approximately HK\$1,976.13) per Convertible Preferred Share
“subsidiary(ies)”	having the meaning as ascribed to it under the Companies Ordinance (Chapter 622 of the Laws of Hong Kong)
“Transaction”	collectively, the Subscription and other transactions contemplated by the Investment Agreement
“US”	the United States of America
“US\$”	US dollars, the lawful currency of US
“Wonderful Stars”	Wonderful Stars Pte. Ltd., a company incorporated in Singapore and an indirect wholly-owned subsidiary of the Company
“%”	per cent.

By Order of the Board
CHIH Yu Yang
Acting Chairman

Hong Kong, 21 May 2018

As at the date of this announcement, the Board of the Company comprises three executive directors, namely Mr. CHIH Yu Yang, Mr. WANG Chien Ho and Mr. HUANG Chin Hsien; one non-executive director, namely Dr. LUO Zhongsheng; and three independent non-executive directors, namely Mr. LAU Siu Ki, Dr. Daniel Joseph MEHAN and Mr. TAO Yun Chih.

For illustration purposes, US\$ is translated into HK\$ at an exchange rate of US\$1.00 = HK\$7.80.